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C O N F I D E N T I A L SECTION 01 OF 02 YEREVAN 000281

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SUBJECT: KEEPING ARMENIA'S LIGHTS ON: PIPE DREAMS AND CAUCASUS ECONOMIC DECISIONMAKING

REF: STATE 27788

Classified By: Amb. John M. Evans for reasons 1.4 (b, d).

SUMMARY

¶11. (C) President Robert Kocharian is, by most accounts, Armenia's negotiator-in-chief on energy. He has personally formulated and, through a tight network of close advisors, controlled the implementation of the GOAM's strategically important and financially significant energy deals with Russia and Iran. In Russia at the time of the January 22 Mozdok-Tbilisi pipeline explosions, Kocharian witnessed the resulting interruption in gas supplies, the depletion of Armenia's limited strategic gas reserves, and the proliferation of wide ranging conspiracy theories about delays in restoring the pipeline. In the wake of the explosions, the ten-day countdown to rolling blackouts and forced outages likely impressed upon him, and an already-anxious set of advisors, the need to diversify energy supplies.

¶12. (C) The temporary cut-off also played into the ongoing Iran-Armenia courtship which, with hundreds of millions of dollars in Iranian pipeline, thermal, hydro-, and solar power projects in various stages of implementation or negotiation in Armenia, threatens to challenge Russia's monopoly hold on the energy market. Faced with few alternatives and tough negotiations with Moscow over April 1 price hikes in Russian natural gas supplies, Armenian leaders openly and actively support expanded economic ties with Iran. Few Armenian officials, if any, oppose Armenia expanding the trade of energy resources with Iran. End Summary.

YEREVAN'S ECONOMIC DECISION MAKING

¶13. (C) Answers are keyed to reftel questions:

A) Who is Armenia's lead negotiator for energy deals with Russia and Iran? To what extent is President Kocharian involved in the negotiations?

--President Robert Kocharian is Armenia's lead negotiator on high-level energy deals. By most accounts, Kocharian utilizes a tight network of close advisors (Defense Minister Serzh Sargsyan for Russia, Minister of Energy Armen Movsisyan for Iran, and ArmRosGazProm Executive Director Karen Karapetyan for technical issues) to personally manage Armenia's energy policies and negotiations. (Note: Until reports on February 24 of Presidential Chief of Staff

Artashes Tumanyan's resignation (septel), Tumanyan served as Kocharian's chief messenger on energy negotiations with Iran. End Note.) (Comment: It is too soon to predict whether Tumanyan's successor, 33-year-old Armen Gevorgyan, will play as prominent a role in Armenian-Iranian relations in general, and energy negotiations in particular. Gevorgyan served as Kocharian's first assistant from 2000 until his promotion to Chief of Staff on February 24. He has worked for Kocharian in various capacities since 1997.)

--As with other foreign policy objectives, Armenia's energy policy is based on the principle Foreign Minister Vartan Oskanian describes as "complementarity" -- balancing relations with competing partners. With Russia, Kocharian likely taps Minister of Defense Serzh Sargsyan who already has strong ties -- established over years of military cooperation -- as a conduit to official Moscow. With Iran, Minister of Energy Armen Movsisyan, a frequent visitor to Tehran as a member of the Iran-Armenia Joint Economic Commission (which former Presidential Chief of Staff Artashes Tumanyan headed), will now be Kocharian's likely conduit to official Tehran. (Note: Armenian ambassador to the United States Tatul Markaryan is Minister of Energy Armen Movsisyan's brother. End Note.)

B) Do any Armenian non-state actors influence the energy decision making process?

--ArmRosGazProm Director Karen Karapetyan, a savvy businessman appointed by Kocharian to head Armenian interests in the multi-million dollar conglomerate, is the technical expert and business manager Kocharian largely credits with improving ArmRosGazProm's financial status and expanding the market to an estimated USD 100 million annual business.

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C) Which officials are the greatest proponents of an increased economic relationship with Iran? Who opposes this relationship?

--Faced with few alternatives and tough negotiations with Moscow over April 1 price hikes in Russian natural gas supplies, Armenian leaders openly and actively court expanded economic ties, especially in the energy sector, with Iran. Few, if any, oppose strengthening overall relations. Through Minister of Energy Armen Movsisyan (and until his February 24 resignation former Kocharian Chief of Staff Artashes Tumanyan) the GOAM regularly courts Iranian investment in Armenia's energy infrastructure. Foreign Minister Vartan Oskanian is also an outspoken advocate of increased economic relations with Iran, as is Kocharian's economic advisor (Amcit) Vahram Nercessian (whose father still lives in Tehran). (Note: Armenian Ambassador to Iran Karen Nazarian, a rising star in Armenian foreign affairs, was one of Oskanian's closest advisors at the Ministry of Foreign Affairs before assuming his post in Tehran in 2005. End Note).

D) What concessions is Kocharian prepared to make to Gazprom to obtain favorable energy pricing?

--Where other Gazprom subscriber states failed, Kocharian successfully delayed the implementation of a 100 percent Russian gas price hike (from USD 56 to USD 110 per thousand cubic meters) to April 1, a short-term victory that will see gas subscribers through a rough winter. Though the price of Russian gas will double after April 1, Armenian officials and energy sector experts predict the cost will have only a nominal impact on industry, perhaps buying additional time for Kocharian to take a longer-term approach. Though unconfirmed news reports have suggested Armenia has offered Russia its remaining 45 percent ownership of ArmRosGazProm (Russia already owns 45 percent), official Yerevan has provided little indication of the concessions it may or may not be prepared to make.

ARMENIAN ENERGY INFRASTRUCTURE LARGELY CONTROLLED BY RUSSIA

¶4. (C) Russia has virtually monopolized control of Armenia's energy infrastructure through management agreements (Armenian Nuclear Power Plant), debt for equity swaps (Hradzan Thermal Power Plant), outright sales (UES Inter RAO's purchase of the one-million subscriber-strong Armenian Electricity Network), joint ownership arrangements (Russia's controlling interest in ArmRosGazProm), and numerous other privatization schemes. According to most accounts, Armenian President Robert Kocharian personally presided over the final disposition of each of these agreements.

RUSSIA AND IRAN POSTURING FOR BUSINESS IN ARMENIA

¶5. (C) In late-January 2006, Minister of Energy Armen Movsisyan reported that Armenia imported almost 1.7 billion cubic meters of gas from Russia, its only supplier, in 2005. According to Movsisyan, the Iran-Armenia gas pipeline would potentially increase Armenia's import capacity to 2.8 billion cubic meters of gas annually. Successful pressure from Russia led Armenia to reduce the size of the Iran-Armenia pipeline (currently scheduled for completion in 2007) by half (from a standard 1500 millimeter diameter to about 730 millimeters) -- effectively limiting Iran's pumping capacity and Armenia's ambitions to become a conduit for Iranian exports to other parts of the Caucasus.

COMMENT: KOCHARIAN FIRMLY AT THE HELM ON ENERGY POLICY

¶6. (C) Armenian decision makers, outside of Kocharian's inner circle, are few and far between, particularly on energy issues.
EVANS